Calendar No. 909

99TH CONGRESS *2d Session*	SENATE	REPORT 99-440

EXPORT REVITALIZATION ACT

REPORT

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

TO ACCOMPANY

S. 2815

together with

ADDITIONAL VIEWS

SEPTEMBER 12 (legislative day, SEPTEMBER 8), 1986.—Ordered to be printed

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Mr. HEINZ, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

[To accompany S. 2815]

HISTORY OF THE LEGISLATION

On November 20, 1985, S. 1860, the Trade Enhancement Act of 1985, was introduced by 28 Senators, including Senators Garn, Heinz, Gorton, Mattingly, Dixon, and Sasser of the Committee on Banking, Housing, and Urban Affairs. Titles V and IX of S. 1860 contain matters primarily within the jurisdiction of the Committee on Banking, Housing, and Urban Affairs.

Hearings on S. 1860 began on May 12, 1986, with a joint hearing held by the Subcommittee on International Finance and Monetary Policy of the Committee on Banking, Housing, and Urban Affairs and the Subcommittee on International Trade of the Finance Committee. Treasury Secretary James A. Baker III and Stephen Sachs, Professor of Economics at Harvard University, were the witnesses.

On May 13, 1986, the full Banking Committee held a hearing on international finance and trade legislation, Secretary of Commerce Malcolm Baldridge testifying.

On June 25, 1986, the International Finance and Monetary Policy Subcommittee held a hearing on international finance and debt matters, including a review of the implementation of the International Lending Supervision Act of 1983. Testimony was received from William Taylor, Director, Division of Banking Supervision and Regulation, Federal Reserve System; Robert R. Bench, Deputy Comptroller of the Currency for International Relations and Financial Evaluation; Charles Collier, Assistant Director for Bank Supervision, the Federal Deposit Insurance Corporation; Karl Haswell, Senior Vice President, Chemical Bank; Charles Hammel,

Senior Vice President, International, AmeriTrust Company; and Karin Lissakers, Columbia University.

On December 12, 1985, Senator Heinz introduced S. 1934, the Export Trading Company Amendments Act of 1985. On June 17, 1986, the Subcommittee on International Finance and Monetary Policy held a hearing on the legislation. Testimony was received from Manuel H. Johnson, Jr., Governor, Federal Reserve System; R. David Luft, Deputy Assistant Secretary of Commerce for Services; Allan I. Mendelowitz, Associate Director of the National Security and International Affairs Division of the General Accounting Office; Malcolm P. Davies, President of Manufacturers Hanover World Trade Corporation; and John Lewis, Vice President of Rainier Bank and Manager of Rainier International Trading Company.

The Committee met in open session on August 14, 1986. After adopting 7 amendments to a Committee print bill, which bill included provisions from Titles V and IX of S. 1860, S. 1934, and various additional provisions relating to international trade and finance, the Committee agreed without objection to the amended bill and ordered it favorably reported, as amended, in the form of an original bill.

Explanation of the Provisions

Overview

Surging U.S. trade and current account deficits have generated a chorus of complaints from American business and labor that remedial action to restore balance to the U.S. payments position is needed. The annual merchandise trade deficit trebled between 1982 and 1985, reaching nearly $150 billion, and for the first half of 1986 it is running 18 percent ahead of the 1985 pace. During a period of generally growing national prosperity in the United States export-oriented and import-sensitive economic sectors have been experience and continue to experience severe stress. Exports remain below the levels attained in 1980, while imports are fully one-third higher than the 1980 level. The United States has become a net debtor with respect to the rest of the world for the first time since the early part of this century.

Despite these signs of economic trouble, the United States has also realized substantial benefits from relatively unfettered trade and financial flows during this period. U.S. consumers have benefited from access to a large volume of low cost imported goods. The United States has been able to finance its budget and current account deficits through capital flows from abroad. Many sectors of the economy have experienced sustantial investment and growth, partially financed from abroad. The stability of the international financial system has been bolstered because countries with very heavy external debt burdens have been able to sell goods to U.S. consumers and earn their way out of financial crisis. Nonetheless, there is a strong consensus that the manufacturing sector and other trade sensitive sectors have suffered too much, that present trends in U.S. trade and capital flows cannot be sustained, and that more balanced flows of trade and capital in the world economy are essential to long-term stability.

Developments in the U.S. balance of payments position during the 1980's have a number of causes, but a key factor has been the macroeconomic policy environment in the United States as well as in the major trading partners to which U.S. fortunes are inextricably linked.

The United States has run very large fiscal deficits during the 1980's, on the order of 45 percent of GNP compared to 2 percent during the 1970's. The financing of these deficits attacted saving from abroad as did the general vigor of the U.S. economy as it recovered from recession at a much faster pace than did other major economies. The increased demand for dollars raised the dollar exchange rate; the relative prices of exports and imports and the higher rate of U.S. growth combined to produce large trade deficits.

Reforming the policies that produced such unbalanced trade must start with action on the key problem of the U.S. economy—the U.S. budget defict. Equally important is cooperation from major U.S. trading partners to achieve higher growth and open economies. In consequence of a more stable policy environment, stable echange rates that reflect economic fundamentals must also be part of the scenario. Achievement in these areas has been mixed.

While present deliberations on the 1987 budget appear likely to result in a substantial reduction in the budget deficit next year, the 1986 deficit is likely to be well above $200 billion and perhaps a record. The United States cannot expect support from other countries unless the government follows through on commitments to lower budget deficits.

A commitment by major U.S. trading partners to policies that will support more balanced growth and trade remains elusive. When the U.S. economy came out of the global recession in 1982 much more quickly than major U.S. trading partners and grew more vigorously, the United States demand for imports far exceeded weak demand for U.S. goods abroad. In 1985 and 1986, U.S. growth has slowed, and the dollar has fallen in value, yet trade patterns have yet to change. Despite the repeated urging of the U.S. Government, Germany and Japan have been unwilling to take steps to reinvigorate their economies and they continue to pile up large trade surpluses. Japan has made pledges to liberalize access to its domestic market but major impediments to fair competition for U.S. producers remain in the Japanese market. In testimony before the Banking Committee, Federal Reserve Chairman Paul Volcker, Treasury Secretary James Baker, and Commerce Secretary Malcolm Baldrige all pointed to improve performance in these markets as absolutely essential to more balanced U.S. trade.

Given the dearth of progress in shifting basic policies, surprisingly the only area in which a clear shift has already occurred is exchange rates. From 1982 through early 1985, the trade deficit trebled supported by a 40 percent rise in the trade weighted value of the dollar that depressed exports and made imports more attractive. Since its peak in early 1985, however, the dollar has dropped in value by roughly 25 percent on a trade-weighted basis, although the effect of this drop has yet to be reflected in the trade figures. In their testimony before the Banking Committee, both Secretaries Baker and Baldrige argued that the effect will only be felt in a lev-

eling off of the deficit during 1986 and a lower deficit in 1987, and neither saw devaluation alone reducing the $150 billion deficit below the $90–$100 billion range. Despite the adjustment that has already occured and the limited role exchange rates alone can play, policymakers in the Economic Summit countries must be prepared to undertake coordinated action in the areas of monetary policy and market intervention where appropriate.

Another key factor in poor U.S. trade performance has been the collapse of major developing country markets, especially Latin American markets, under the weight of a financial crisis arising out of failed domestic polices, heavy accumulation of debt, and various external shocks. In the late 1970's and early 1980's, rising oil prices and interest rates and falling prices for commodity exports were the key problems; now the impact of falling oil prices is hurting countries such as Mexico, Venezuela, and Nigeria. Since 1982 the debtors and their creditors have worked to revive these economies through policy reform programs backed by debt restructurings and new financing from creditors. Despite repeated attempts in the case of some countries, these efforts have so far failed to generate sustainable growth or significantly to improve the ability of these countries to service their debt.

In their Banking Committee testimony, Secretaries Baker and Baldrige agreed that restoration of healthy trade with the developing world is essential to restoring vigorous U.S. export performance. In recognition of the need to solve this continuing problem, Secretary Baker put forward a U.S. initiative last fall in Seoul, Korea urging renewed multilateral action on the debt problem. While heightened attention to the problem has been welcome, the Baker Initiative broke no new ground, simply reemphasizing the same reform-for-new-credit trade-off that has had limited success in the past and failing to address the possibility of and need for new approaches.

An additional trouble spot in U.S. export performance is the limited awareness of and focus on exporting opportunities by American businesses, especially smaller businesses. The perception of limited access to export markets causes firms to focus their efforts exclusively on the American market. Unless opportunities in the world market are vigorously pursued, the export potential of the U.S. economy will never be realized. Vigorous export trading companies and an active role for U.S. Government agencies, especially the Commerce Department, in this effort are essential.

None of the problems or concerns outlined above are new. U.S. trade would not likely have reached as severe a condition if the U.S. Government had vigorously pursued a broad and comprehensive set of solutions to these problems over the last several years. The inadequate action by the U.S. Government to address international economic policy issues, except the debt problem, until very recently leaves the impression that the U.S. Government does not view seriously the international implications of its economic policies, the deficiencies of present U.S. trade laws, or the loss of competitiveness of the U.S. economy in world trade.

In order to ensure that the U.S. Government does concern itself directly with these problems in the future the Export Revitalization Act includes a broad range of provisions intended to improve

the international economic environment, to encourage more balanced trade, and to address problems of U.S. competitiveness directly.

Explanation of the Provisions of Title I

EXCHANGE RATES AND DEVELOPING COUNTRY DEBT

Measures relating to exchange rates

The need for coordinated action among the Economic Summit countries to promote a stable international economic policy environment and resulting stable exchange rates in order to promote better balanced world trade and economic growth is now generally recognized. Over the last year, the U.S. approach to tackling these problems and improving its competitive position has shifted from unilateral policy setting to a cooperative effort with the other Economic Summit countries to find policy solutions. This has included initial steps to coordinate macroeconomic policies as well as coordinated exchange market intervention. Despite this welcome shift in approach, U.S. trade deficits continue to soar.

To ensure that the initial steps to promote a stable economic environment and stable exchange rates are pursued vigorously, Title I of the Export Revitalization Act makes it the policy of the United States to continue the process of cooperation and negotiation begun over the last year, most notably at the Tokyo Economic Summit, to coordinate economic and monetary policies with the major U.S. trading partners with the goal of making such policy coordination a permanent element of relations among the Summit countries. The President is also directed to continue discussions with other Summit countries on improving the functioning of the international monetary system, including consideration of the utility of a formal monetary conference. Finally, this Title urges negotiations to improve the international investment climate with the goal of increasing the volume and efficiency of such flows.

Strategic exchange reserve

While a stable policy environment is the primary determinant of stable exchange rates, Title I also recognizes the importance of limited exchange market intervention in signalling the view of governments on appropriate exchange rates. To support U.S. participation in coordinated intervention, Title I therefore directs the Secretary of the Treasury and Board of Governors of the Federal Reserve System to ensure that the United States maintains stocks of foreign currencies sufficient to permit credible intervention. While authority already exists to carry out this purpose, this section underlines the importance the Congress attaches to active exchange market intervention under appropriate market conditions rather than the strict laissez-faire approach followed in the past.

International monetary policy report

Contributing to the failure to address these key policy issues has been the failure of policymakers to keep Congress and the public fully informed or to subject these issues to public debate. Title I therefore establishes a semi-annual International Monetary Policy

Report to the Congress by the Secretary of the Treasury. This report, prepared in consultation with the Chairman of the Board of Governors of the Federal Reserve System, would include information on exchange market developments, monetary system reform actions, U.S. economic policy changes likely to affect the U.S. current account position, and exchange rate and economic policy profiles of major U.S. trading and financial partners. In addition to written reports in April and September of each year, the Secretary of the Treasury himself would be required to provide an oral report in testimony before the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking, Finance, and Urban Affairs within 30 days of issuance of the April report.

Measures relating to developing country debt

A second essential element in renewed U.S. export performance is recovery of major developing country markets for U.S. goods, especially Latin American markets. There is now broad agreement that the key to their recovery is market-oriented policy reform and removal of investment barriers backed by continuing support from their creditors. This has been the basis for dealing with the problem for nearly four years and is central to the Baker Initiative announced last year. However, there is considerable disagreement over the form that creditor support should take. Since 1982 creditors have provided debt restructuring and some limited new credit. This measured approach has provided time to strengthen the capital position of commercial banks and avoid the financial crisis widely feared when the debt problem first developed. However, while the banks have been strengthened, the debtors have made little progress in reducing their debt burden or restoring sustainable growth.

In order to promote recovery in these key U.S. markets, Title I directs the President and other Administration officials to undertake intensified multilateral efforts to resolve the debt problem and to consider the advantages and disadvantages of a broader range of creditor support mechanisms including various forms of debt relief to reduce the debt burden of the major debtors to manageable proportions and restore economic growth.

Regulatory study

To ensure that the issue of debt relief is fully explored by appropriate U.S. authorities and subjected to public debate, Title I amends the International Lending Supervision Act of 1983 by adding a requirement for a study of this issue by the Secretary of the Treasury and the Federal bank regulatory agencies to be delivered to the Congress within 6 months of enactment. The goal of the study is to analyze and weigh the advantages and disadvantages of the widest possible range of regulatory steps to encourage a reduction in the indebtedness of major debtors to U.S. banks in a way that would both improve overall bank asset quality and reduce the debt burden of the countries themselves.

Other measures

Title I also contains several provisions designed to ensure that resources provided by the Export-Import Bank and export credit

agencies of OECD countries, the multilateral development banks, and the International Monetary Fund be directed to support growth and appropriate policy reform in developing countries and not wasted on expanded production of primary commodities already in global oversupply and facing shrinking markets and falling prices. The Secretary of the Treasury is required to report semiannually on U.S. success in achieving these goals.

EXPLANATION OF THE PROVISIONS OF TITLE II

BANK EXPORT SERVICES

Definition of export trading company

The Bank Export Services Act requires approved ETC's to be "organized and operated principally for purposes of exporting goods or services produced in the United States . . ." "Principally" was construed in legislative history and subsequently in regulation to mean that more than 50 percent of the ETC's income must come from exports. This has proved to be a significant constraint on ETC activity because of their need to engage in importing and their desire to enter into third country transactions that involve neither exports from nor imports to the U.S. No company can engage only in one-way trade and expect to function successfully over the long term. The very concept of trade implies goods and services flowing in two directions. Thus, some degree of importing activity is inevitable in any successful ETC. At the same time, however, many companies have found that there are opportunities throughout the world for an ETC to facilitate trade between two or more countries outside the United States. For example, the sale of Indonesian rice to Algeria would be an example of third country trade that does not cross U.S. borders but provides profit opportunities for American ETC's and improves the U.S. trade balance through the export of trade services.

At present, however, such transactions effectively count as imports in the Federal Reserve Board's periodic calculation of whether an ETC is meeting this test, since income from exports is effectively measured against—and must exceed—income from all other sources. While the Committee intends that ETC's should facilitate exports, it is equally clear that we should not constrain them from entering into third country transactions that have no adverse effect on our trade balance.

Accordingly Title II amends the Act to provide that "principally" means an excess of export-related income over import-related income, thereby excluding third country transaction income from the test entirely. This will make it easier for ETC's to continue to meet the definition of export trading company, and it will encourage them to enter into these kinds of transactions, which will provide both present income as well as future business opportunities that might well include direct export from the United States.

Another problem with the definition of export trading company lies in an erroneous interpretation of the 1982 legislation by the Federal Reserve Board relating to the export of services. The Board interpreted the legislation to preclude counting the export of services produced by the ETC itself or an affiliate as export-related

income for purposes of the definition. Effectively this prevents an ETC from setting up a division abroad that provides services. This interpretation is contrary to our intent when we wrote the law and an unwarranted and unnecessary constraint on ETC activity. The new definition in Title II of the bill also corrects this problem, although it retains current restrictions on the selling, distributing, or underwriting of securities and insurance.

Leverage and inventory

Federal Reserve Board regulations have been issued, embodying an excessively conservative interpretation of the law that is unjustified by any threats to bank safety, but which has been a significant disincentive to ETC formation over the past 3 years.

The bill would change the Board's requirement that ETC's proposing an assets to equity ratio of more than 10 to 1 must have their application considered in Washington rather than approved at the regional Federal Reserve Bank. This regulation has had the chilling effect of telling prospective ETC's that a proposed ratio of greater than 10 to 1 will encounter considerably more bureaucratic difficulty, delay, and expense.

While the Committee does not oppose the establishment of a desirable ratio as a guideline to be considered in reviewing ETC applications, the Committee considers the 10 to 1 ratio to be unrealistic. A more appropriate level, in view of what is a common practice in other countries, would be 25 to 1. That is what the bill proposes in the form of a general specification that the Board may not disapprove an application solely on the basis of a proposed assets to equity ratio, unless that ratio is greater than 25 to 1.

In addition, the bill would change the Board's requirement that proposals to permit an ETC to hold inventory in excess of $2 million also be referred to Washington. That requirement sends the same negative signal as the regulation on leverage ratios. It is also particularly burdensome since $2 million is an extraordinarily low amount, particularly as ETC's begin to expand. In some cases $2 million may be an appropriate limit to adequately protect bank safety; in other cases it may not. The best approach would be to tie such a limit, if it is to be imposed at all, to the circumstances of a particular case, and to the extent that it would effect safety and soundness of the affiliated bank. Therefore, the bill would prohibit the Board from imposing by regulation a dollar limit on inventories except on a case-by-case basis as just described.

Explanation of the Provisions of Title III

Export promotion

Export promotion activities of foreign commercial service officers

Several measures are included in the bill to strengthen and give direction to the mission of our Foreign Commercial Service Officers. The Secretaries of State and Commerce are directed to review periodically the assignment of FCS officers to U.S. foreign missions, to ensure that they are assigned to the posts most critical to our commercial interests.

The Secretaries are also directed to extend the length of assignment of such personnel in order to ensure greater continuity and experience in a particular post. Personal contacts and local experience are crucial in an export sale, and it is important to provide adequate time for FCS personnel to establish those contacts and to benefit from that local experience.

Each chief of a U.S. diplomatic mission to a country that is an important trading partner would be required to transmit to the President and the Congress a report on the export promotion activities of that post. Too often, trade promotion goes neglected at some of our embassies and consulates. This reporting requirement will help to ensure that these trade concerns, vital to our national welfare, will not be ignored.

Billions of dollars in support are made available each year to developing countries through the various multilateral development banks, such as the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Inter-American Development Bank, the Inter-American Investment Corporation, the Asian Development Bank, the African Development Bank, and the African Development Fund. Under the provisions of the bill, it would be the sense of the Congress that measures be taken to ensure that U.S. suppliers have a fair opportunity to compete for the business generated by this MDB support. Our Executive Directors to these institutions should provide our businessmen with timely and appropriate information on projects and should also take action to ensure that U.S. suppliers are receiving fair treatment in the awarding of contracts. An FCS officer should be assigned to each U.S. Executive Director to assist in this effort.

Collection and dissemination of trade information

Several agencies of the government collect and produce information relating to international trade, information that they make available to U.S. exporters. Too often, however, the U.S. exporter does not know that the information is available or where to look for it. This provision would direct the Commerce Department to act as a central clearing house for that information, to assemble it and make it available to U.S. exporters so that it can have the greatest use and best effect.

It is intended that this be a regular part of Commerce's existing trade promotion activities, so no additional funds are authorized by the bill for this activity.

Multilateral development bank liaison

Several multilateral development banks do not have their main offices in the United States. These are the Asian Development Bank (Manila), and the African Development Bank and Fund (Abidjan, the Ivory Coast). In order to ensure that U.S. suppliers have a fair opportunity to compete for participation in the projects of these banks, the Department of Commerce is directed to establish a liaison office with these banks. This office would provide U.S. exporters with information relating to new projects, such as bid specifications, deadline dates, and so forth.

Rank of commercial officers

To date, the Secretary of State has not conferred the title of Minister Counselor on any of the senior commercial officers serving at U.S. foreign missions. This limits the ability of those officers to gain access to senior level foreign business and government officials.

The bill would direct the Secretary of State to consider the title of Minister Counselor on the senior commercial officer at eight U.S. foreign missions designated by the Secretary of Commerce. The Secretary of Commerce is authorized, with the concurrence of the Secretary of State, to name additional posts where such a designation for the senior commercial officer would be appropriate.

This provision would not result in increased costs, since the designation of Minister-Counselor is a diplomatic title and not a designation in the pay scale.

Catalog of U.S. Government resources

Several U.S. Government Agencies provide services that are or could be useful to U.S. exporters. Examples of these agencies are the Export-Import Bank, OPIC, the Small Business Administration, the Department of State, the Agriculture Department, and other agencies. Under the bill the Commerce Department would be directed to publish a catalog of these services to make them more accessible to the exporter. This will be particularly helpful to the small businessman who does not have the contacts or resources to stay current otherwise with the various Federal programs. This catalog would be made available for sale through the Government Printing Office.

BUDGETARY IMPACT STATEMENT

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, September 10, 1986.

Hon. JAKE GARN,
Chairman, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed an original bill, the Export Revitalization Act, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs, August 14, 1986. We estimate that enactment of this bill would result in costs to the Federal Government of about $2 million in fiscal year 1987, and about $1 to $2 million annually thereafter.

The bill would direct the Secretary of Commerce to designate an office of the International Trade Administration (ITA) to act as a business liaison with the three multilateral development banks (MDBs) that do not have their main offices in the United States. The ITA is also directed to publish a catalog of U.S. Government sources of information that are potentially useful to exporters. In addition, the bill would require the Secretary of the Treasury to prepare several reports for the Congress relating to international

monetary policy, international debt, and the role of the Export-Import Bank in financing exports.

We estimate that ITA's preparation of a catalog of Government sources of information and its liaison activities with the MDBs would cost about $1 million annually. The required Treasury studies and reports would cost about $2 million over the 1987–1989 period. Other provisions of the bill are not expected to significantly affect costs or revenues of the Federal Government.

No costs would be incurred by State or local governments as a result of enactment of this bill.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,

Sincerely,

RUDOLPH G. PENNER, *Director.*

REGULATORY IMPACT

Pursuant to rule XXVI, paragraph 11(b), of the rules of the Senate, the Committee has evaluated the regulatory impact of the bill and concludes that it would have no impact on the regulatory burden of the Government.

CHANGES IN EXISTING LAW

The Committee has determined that it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of Rule XXVI, paragraph 12, of the rules of the Senate, with respect to this legislation.

ADDITIONAL VIEWS OF SENATORS GORTON AND PROXMIRE ON TITLE I OF THE EXPORT REVITALIZATION ACT

Congress seems to have special difficulty dealing with problems associated with the balance of trade and the value of the dollar. The absence of clear policy prescriptions, and the ready availability of contradictory advice make it especially difficult to formulate consensus in what often seems to be a murky area. We commend Senator Heinz, therefore, for trying to move this issue higher on the Congressional agenda, and for working hard to come up with proposals for dealing with our international trade problems.

Certainly the high value of the dollar between 1980 and 1985 contributed to the massive and growing trade deficits, and their counterpart capital inflows, which have converted the United States into a net debtor nation for the first time since 1914. Title I of the Export Revitalization Act draws attention to the impact of exchange rates on trade flows, and stresses the need for the United States and its major trading partners to coordinate better their monetary and fiscal policies in order to prevent exchange rate instability. Such instability undermines the international consensus for a free and open trading system.

Nevertheless, we have serious reservations about Title I of the Export Revitalization Act because it puts too much emphasis on intervention in exchange markets by governments as a way of dealing with our balance of trade deficit. In our view, this distracts attention from the real underlying fiscal and monetary problems, and may ultimately do us more harm than good. In particular, we fear that by subscribing to the view implicit in this bill it will be easier for Congress in the future to justify all sorts of protectionist measures that will ultimately damage both our domestic and the international economy. At the same time, the bill ignores the role that the federal government's budget deficit plays in determining the trade balance, and thus permits us to avoid grappling with the reasl issue.

Title I of this bill seems to be to be predicated on a view of the world in which 1) the dollar is "misaligned," and its value on international exchange markets is somehow inconsistent with underlying economic reality, 2) the monetary authorities can and should permanently alter the value of the dollar in a significiant way, and 3) that if they do so, the trade balance will improve. We disagree with all of these points.

A year or two ago there was widespread talk in Congresss and elsewhere about the "overvalued dollar." At that time, a number of people came forward and argued that one or another anomaly was causing the dollar to diverge from its "true" value. But in the last year the dollar has plummeted in value, and now stands at historic lows against the yen and the mark. And yet the pending bill contains language that states that ". . . policies to support free trade

. . . have been undermined by misalignment of exchange rates." Should we take this to mean that the value of the dollar is now too low? We cannot believe that many in Congress would argue that, but it seems to us to be an implication.

More fundamentally, we simply disagree with the view that there is some mystical "true" value of the dollar understood only by us in Congress, and that we are living in a world in which international trade or capital flows, or the value of various currencies, cannot be explained or understood in conventional terms. The assertion that "markets are behaving irrationally," implies that somehow we in Congress know better than do commercial interests the world over what should be going on. It is only a short step from this assertion to the belief that we should substitute our judgment for that of markets, and seek to protect domestic markets, and control foreign exchange markets. This would be dangerous and misguided for several reasons.

First, it is simply not true that the monetary authorities can produce significant and permanent changes in the value of the dollar at will, and without doing such serious damage to our other economic goals as to render such a move completely counterproductive. The bill at hand, it appears to us, perpetuates the myth that we can do so in several places. It states that "an activist approach to exchange rate intervention has contributed to a significant orderly decline in the value of the dollar . . ." We disagree, and so does the overwhelming majority of the economics profession. The decline in the value of the dollar over the past year is not due to the exchange market interventions undertaken by our and other governmnents over the past several months. Rather it is due to the slowing of U.S. growth over the period, combined with a reversal of other factors that had previously driven up its value. The currency interventions, on the other hand, have been minimal.

Furthermore, those currency interventions, being of the type called "sterilized", are fundamentally incapable of producing permanent changes in the value of the dollar. On this point all economists are in agreement. Only "unsterilized" intervention, that is, intervention in which we permanently change the amount of dollars outstanding, could produce such changes. And yet we never pursue unsterilized intervention, for a very good reason. To do so would mean subordinating all of our domestic monetary policy goals to the single goal of reducing the value of the dollar on foreign markets. To reduce the dollar's value permanently, the Federal Reserve would have to print large amounts of dollars. Who in Congress is willing to urge the Federal Reserve to pursue an inflationary money policy solely to reduce the international value of the dollar? No one. And yet, absent such a policy, there is no way the monetary authorities can permanently alter the international value of the dollar, as seems to be the kind of policy called for in this bill.

Even more importantly, following the path this bill calls for would send precisely the wrong signal to our trading partners and to our financial markets. It tells those markets that we have permitted our attention to become distracted from our enormous capital inflows. So long as our capital markets are generating such enormous inflows of foreign capital, the current account will be in

deficit, purely as an accounting necessity. When will we reduce our capital inflows? Just as soon as we reduce the disparity between domestic saving and investment, by reducing the enormous borrowing of the federal government. Then, and only then, will we succeed in bringing our trade account closer into balance.

Should Congress be concerned about the language in the Export Revitalization Act that gives too much weight to this view that we can and should address our trade deficit through exchange market intervention? Some might argue that much of the language of Title I is hortatory, and that the directions given to the Executive Branch in the bill—to produce a study, to propose solutions—permit a great deal of flexibility that we need not worry about committing serious errors. But the language of Title I is not simply hortatory. It calls for the establishment of a Strategic Exchange Reserve in order to facilitate the participation of monetary authorities in currency markets. Furthermore, even by expressing these views, they tend to become part of a conventional wisdom. Next year, when Congress debates trade again (as surely it will), will language comparable to this be adopted almost by default? How many staffers will tell their Senators, "Well, Senator, the Senate approved this language once before and there didn't seem to be any problem, so I guess it's o.k. again this year."?

We believe that it is wrong for the Senate, and especially for the Committee on Banking, to appear to accept the view of international currency markets implicit in the Export Revitalization Act. To do so increases the chances of our pursuing seriously misguided international economic policies, and distracts our attention from one issue on which it should be focused most clearly—the need to reduce federal government borrowing by eliminating the budget deficit.

SLADE GORTON.
WILLIAM PROXMIRE.

ADDITIONAL VIEWS OF SENATOR PROXMIRE: TITLE II—BANK EXPORT SERVICES OF THE EXPORT REVITALIZATION ACT

Title II of the Export Revitalization Act makes changes to Title II of the Export Trading Company Act. In 1982 the Congress passed the latter Act which was designed to encourage exports by facilitating the formation and operation of export trading companies. Title II of the 1982 Act, known as the Bank Export Services Act (BESA), provided a limited exception to the nonbanking prohibitions of the Bank Holding Company Act by permitting bank holding companies to make equity investments in export trading companies. That Title represented a dramatic departure from the long held policy of keeping banking organizations out of commercial ventures. In recognition of the potential risks of this expanded latitude, however, Congress included a number of prudential safeguards to limit the potential adverse financial effects on banks affiliated with ETC's and charged the Federal Reserve to administer them.

When the Export Trading Company Act was passed many of its supporters hoped that bank-affiliated export trading companies would help reduce America's trade deficit. The Act was signed during the fourth quarter of 1982 when the U.S. economy was in the depths of a recession and the volume of exports had fallen more than 20 percent from its peak in 1980. Since that time U.S. exports have rebounded only slowly and still remain below their 1980 peak. The U.S. trade deficit has increased from $25 billion in 1980 to approximately $125 billion in 1985. This year that deficit could reach $200 billion. In my view our budget deficit is the chief cause of our trade deficit. In addition at least part of this trade deficit is due to the foolish decisions many of our banks made with regard to massive loans to developing countries. Interest payments on those billions of dollars of loans allow the debtor nations little money to buy American goods. Rather than deal forthrightly with that real banking problem, we find the banks seeking to expand the loophole into commerce given them by the 1982 Act. They blame the Federal Reserve for not administering the Act properly and claim that is the reason banks have not built successfully export trading companies.

I am very skeptical of such assertions and am pleased that the Banking Committee, at its mark up on Title II, deleted or amended two of the three provisions that raised serious questions about the safety and soundness of banking organizations, investing in ETC's. My one remaining concern is with Section 203 of Title II which provides that the Federal Reserve may not disapprove a proposed investment by a bank in an export trading company "solely on the basis of the proposed assets to equity ratio of an export trading company unless the proposed annual average ratio is greater than 25 to 1."

Presently in reviewing notices by banking organizations to invest in ETC's, the Board considers the assets to equity ratio of each proposed ETC on a case-by-case basis, taking into account, among other factors, the riskiness of the ETC's proposed activities. In carrying out its duty to preserve the safe and sound operation of bank holding companies the Board must be able to examine carefully the capital structure and proposed leveraging ratios of bank-affiliated ETC's. Capital adequacy is a critical determinant of the financial strength of an ETC and of its ability to withstand unexpected adverse developments so as not to affect the financial resources of the parent holding company or the safety and soundness of affiliated banks. The Federal Reserve Board's current, flexible, case-by-case approach to judging the equity ratios of ETC's in which banking organizations propose to invest is in line with Congress' directive in the International Lending Supervision Act of 1983. That Act ordered the bank regulatory agencies "to cause banking institutions to achieve and maintain adequate capital by establishing minimum levels of capital." U.S. banks are now required to maintain a minimum capital to total assets ratio of 6 percent. There appears to be no justification for a separate statutory rule allowing a minimum capital level of 4 percent for ETC's, as Section 203 provides, when their businesses are likely to be outside the normal range of banking operations and therefore present greater, not fewer, risks.

During our June 17 hearing I asked Dr. Manuel Johnson the following question:

> Isn't it true that since the equity investment of a bank in an ETC can be 5 percent of the bank's capital, and you multiply that by a 25 to 1 leverage, it means the bank is exposed up to 125 percent of its capital since the market expects it to stand behind the debt of the ETC? So if the ETC fails completely, down goes the bank. Isn't that right?

Dr. Johnson responded:

> If it were leveraged to that degree and it failed, yes, it would more than likely cause the bank to fail.

This exchange makes clear, in my view, that the Congress should not weaken the Federal Reserve's supervisory authority over the capital adequacy of ETC's by passing Section 203.

A second reason I oppose Section 203 is that it gives bank affiliated ETC's a competitive advantage over non-bank affiliated ETC's—which are sometimes called export management companies. Small and medium sized companies utilize these export management companies, which act as the export departments of one or more manufacturers and provide export services similar to those of bank-affiliated ETC's in this country and they handle the bulk of all exports handled by ETC's.

During an April 22 hearing on the House side Mr. John Bowles, speaking for the nonbank ETC's said:

> The proposal in the Heinz bill to permit bank-controlled trading companies to leverage at 25 to 1 would create a competitive disparity and bank-controlled ETC's would be able to drive the independent ETC's out of the marketplace.

At our June 17 hearing I asked Dr. Manuel Johnson, a Member of the Federal Reserve Board who testified, whether the concerns raised by Bowles were valid. Dr. Johnson stated:

> Well, I think it certainly is a good point because it's my understanding that the average capital ratios of nonbank affiliated ETC's is only about 2 or 3 to 1. In fact, nonbank affiliated ETC's have very low averaging ratios and are trying to pursue reasonably prudent approaches to export trading activities. Allowing 25 to 1 leveraging to bank affiliates would put nonbank ETC's in a very difficult competitive situation.

For both of the above reasons I oppose the enactment of Section 203 of Title II of the Export Revitalization Act.

WILLIAM PROXMIRE.

ADDITIONAL VIEWS OF SENATOR DIXON

The Committee bill seeks to prohibit the Export Import Bank from supporting or being involved in any U.S. exports that might be used in copper extraction, production, manufacturing, or smelting operations. I believe this kind of special interest legislation has no place in the bill and I strongly oppose it.

The United States frequently pursues unilateral policies regarding its exports in which we wind up shooting ourselves in the foot. We have repeatedly done so in the area of export controls and we now appear to be headed in that direction with export financing.

While it is desirable that the United States encourages multilateral restraint on needless and uneconomical resource projects—which the Committee Bill also proposes—the United States should not deny support of U.S. suppliers to these projects if we are not successful in negotiating the withdrawal of financial support for the projects by all of the various foreign export credit agencies.

The Eximbank should be allowed to continue to support American export in cases where the project would go forward with or without the support of Eximbank. For example, it made sense for Exim to provide assistance for the development of the largest surface coal mine project in the world located in Colombia. The Colombians would have gone forward with this project whether or not Exim provided support for the U.S. exports that could be used. Failure to provide Eximbank support would only have caused the Colombians to purchase the equipment they needed from non-U.S. suppliers.

The U.S. exports that were supported by Eximbank for that project will provide over 21,000 man-years of U.S. employment. These jobs would surely have been lost to our foreign competition without Eximbank's participation. Less than one-half of one percent of the Colombian production will be exported to the United States, and as previously noted, this import of Colombian coal would take place even if Exim had not backed U.S. equipment exports for the project.

To cite a second example, it also made sense for Exim to provide assistance for the expansion of copper mining operations in Mexico. The Mexicans would have gone forward with this project whether or not Eximbank provided support for U.S. exports. As in the Colombian case, if Exim had not participated, the Mexicans would have purchased the needed equipment from non-U.S. suppliers. The result would have been that the project would go forward, but we would have lost 3,500 man-years of U.S. employment.

It should be noted that there are currently three statutory provisions which require Eximbank to carefully weigh the "adverse impact" of supported sales on U.S. business sectors and employment. These provisions provide ample protection to ensure the

Exim loans do not benefit one American business at the expense of another.

The Committee's desire to protect our hard-pressed domestic copper industry is understandable. However, prohibiting Exim from supporting American exports for foreign copper projects even when those projects will go forward without the American exports will be of no benefit to the copper industry. The prohibition will not put one unemployed copper worker back to work. Instead, it will simpy give unemployed copper workers additional company at the unemployment lines. If the Committee provisions are enacted, the copper workers will be joined by thousands of other Americans. These additional jobs will be lost because American businesses lost the orders Exim support would otherwise have created to foreign competition.

ALAN J. DIXON.

ADDITIONAL VIEWS OF SENATOR SASSER ON EXPORT REVITALIZATION ACT

The Committee report fails to underscore the importance of promoting an international lending policy that does not encourage dramatic increases in exportation of agricultural commodities by developing countries to service their debt requirements. The provisions in Title I are designed to ensure that resources provided by multilateral development banks, the International Monetary Fund, the Export-Import Bank, and export credit agencies of OECD countries, are directed to support internal growth and policy reform. I have been concerned by recent lending practices of the World Bank which have promoted agricultural exports through the guise of "growth-oriented reforms."

A glaring example of this type of practice is a recent $350 million loan to Argentina made contingent on Argentina reducing its export tax on agricultural commodities. This reduction had the inevitable effect of encouraging Argentine farmers to boost agricultural exports. Another example is a 1984 $303 million loan to Brazil, used in part to establish a revolving fund to rediscount prefinancing credits for exporters of agricultural and agro-industrial products; in short, a direct, specific subsidy of Brazil's agricultural exports.

Argentina and Brazil are currently major competitors in the world soybean market. Since 1981, Argentina has doubled its soybean exports; Brazil's soybean exports have quadrupled. Yet, in this time period, U.S. soybean exports have fallen 36 percent. The impact on American farmers has been devastating.

The bill does include language authorizing the Presiding to engage in negotiations with the multilateral development banks to reduce production of commodities in oversupply. The report required from the Secretary of the Treasury does require a report on the status of negotiations to end support for production of commodities in world oversupply. It should be made clear that agricultural commodities are directly implied.

Reform of this type of international lending practice is essential if the United States is to remain competitive in world agricultural markets. The practice of international development banks of focusing investment capital on expanding foreign exports harms U.S. producers, who are expected to compete against this subsidized foreign export competition.

JIM SASSER.